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September 12, 2002

Mr. Sybrand Vander Dussen
First Vice Chairman
Milk Producers Council
5370 Schaefer Avenue, Suite A
Chino, CA 91710

Dear Mr. Vander Dussen:

This letter is in response to the petition submitted by Milk Producers Council on August 29, 2002 proposing amendments to the Class 4a pricing formula.

The Department has carefully reviewed the petition along with its proposed amendments and has decided not to grant a hearing at this time. We are aware of the current production/demand imbalances and the challenging cash flow conditions faced by dairy producers. We recently provided all California producers with a Special Dairy Review Newsletter to assist producer decisions regarding USDA's market loss payments to California dairy producers.

Your petition, similar to the June 24, 2002 MPC petition, again refers to the November 2001 CDFA hearing that considered manufacturing cost allowance adjustments. The manufacturing cost allowance changes implemented by CDFA as a result of the November hearing reflected the most up-to-date energy costs paid by dairy processing plants during August and September of 2001. The Department noted in our July 5, 2002 reply to the June MPC petition that CDFA auditors would use the period of the next several months to complete the normal updating of all dairy processing costs. Our staff is nearing completion of these studies.

Following the cost study updates, CDFA auditors will perform a special survey of the most recent month's dairy processing plant energy costs. The Department will prepare an adjusted exhibit using the updated energy costs applied to all cost studies. The butter and nonfat dry milk studies will also be released by the end of September. These various data updates will assist in indicating if a hearing is needed to review Class 4a and 4b formulas.

Sincerely,

Tad Bell
Undersecretary

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